

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L MOSCOW 5092

E.O. 11652: XGDS-4

TAGS: ETRD, EFIN, ENRG, GW, UR

SUBJECT: COMMENTS OF SOVIET MINISTRY OF FOREIGN AFFAIRS

OFFICIAL ON FRG-SOVIET ECONOMIC RELATIONS

REF: A) MOSCOW 4997, B) C) BONN 05476

1. SUMMARY. DURING A CONVERSATION WITH ME ON MARCH 31 MFA THIRD EUROPEAN DIVISION CHIEF BONDARENKO DISCUSSED FRG-SOVIET ECONOMIC RELATIONS AND THE MEETING OF THE FRG-USSR JOINT ECONOMIC COMMISSION WHICH WAS THEN TAKING PLACE IN MOSCOW. HE SAID THAT ECONOMIC RELATIONS ARE DEVELOPING NORMALLY AND FAVORABLY, DISCUSSED SOVIET NEGOTIATIONS WITH THE FRG FOR CONSTRUCTION OF PHASE I OF THE KURSK STEEL COMPLEX AND INDICATED THAT TALKS ON FRG CONSTRUCTION OF AN ATOMIC ELECTRIC POWER PLANT AT KALINIGRAD HAD BROKEN DONW "PRIMARILY" DUE TO COMMERCIAL REASONS. WITH REGARD TO KALININGRAD, HE IMPLIED THAT THE FRG WAS TO BLAME BECAUSE OF ITS REFUSAL TO PAY PRICES WHICH SOVIETS REQUESTED FOR ELECTRICITY AND ALSO TO COMPEN-
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SATE THE USSR FOR TRANSMISSION LOSSES OVER THE LONG DISTANCE FROM

KALININGRAD TO BERLIN AND WESTERN GERMANY. END SUMMARY.

2. I WAS CALLED INTO MFA MARCH 31 BY BONDARENKO, CHIEF OF MFA'S THIRD EUROPEAN DIVISION, TO RECEIVE A PROTEST ON WEST BERLIN (REPORTED SEPTEL). AFTER DISCUSSION OF THAT MATTER HAD COME TO AN END, BONDARENKO TOOK THE INITIATIVE TO CHAT A BIT ON OTHER, MORE PLEASANT SUBJECTS. HE MENTIONED THAT FRG ECONOMICS MINISTER FREDERICH

WAS IN MOSCOW TO TAKE PART IN THE SOVIET-FRG JOINT ECONOMIC COMMISSION TALKS, AND THAT FRIDERICHS HAD BEEN RECEIVED ON MARCH 31 BY KOSYGIN.

3. BONDARENKO DESCRIBED SOVIET-FRG ECONOMIC AND COMMERCIAL RELATIONS AS "DEVELOPING NORMALLY, FAVORABLY", NOW AT AN ANNUAL LEVEL OF APPROXIMATELY DM 10 BILLION. HE ADDED, PERHAPS IN DEFERENCE TO MY PRESENCE, THAT THE "GEOGRAPHICAL FACTOR IS IMPORTANT IN OUR TRADE RELATIONS" WITH THE FRG. HE SAID THAT WHILE THE KURSK METALLURGICAL COMPLEX AT STARIY OSKOL, ("WHICH USES LARGELY AMERICAN TECHNOLOGY") IS THE ONLY MAJOR JOINT PROJECT UNDERWAY AT THE MOMENT, DISCUSSIONS ARE BEING HELD ON ADDITIONAL PROJECTS FOR THE FUTURE. HE ADDED THAT THE KURSK COMPLEX IS ONLY THE THIRD IN THE WORLD TO USE THE TYPE OF TECHNOLOGY IT WILL APPLY, AND IS MUCH LARGER THAN THE OTHER TWO, ONE OF WHICH IS IN THE FRG AND THE OTHER IN CANADA.

4. IN DISCUSSIONS ON FINANCING THE KURSK PROJECT, BONDARENKO SAID THAT THE FRG AT FIRST WANTED THE SOVIETS TO PAY TEN PERCENT INTEREST ON LOANS IT WOULD ADVANCE. THE SOVIETS THEN SUGGESTED A COMPENSATION DEAL UNDER WHICH THEY WOULD REPAY THE FRG IN STEEL AT PRESENT PRICES. BONDARENKO COMMENTED THAT THIS WOULD HAVE BEEN IN THE FRG'S FAVOR, SINCE PRICES WILL UNDOUBTEDLY GO MUCH HIGHER IN THE FUTURE. SINCE THE FRG WOULD NOT AGREE, HE ADDED, IN THE END THE SOVIETS PAID CASH.

5. I ASKED BONDARENKO WHAT THE PRESENT SITUATION WAS WITH REGARD TO THE KALININGRAD NUCLEAR ENERGY POWER PLANT. HE REPLIED "NOT SO GOOD". HE CONTINUED THAT THE EXPLANATION FOR THIS STATE OF AFFAIRS LAY "PRIMARILY" IN COMMERCIAL REASONS, RELEGATING POLITICAL CONSIDERATIONS TO SECOND PLACE. THE FRG, HE SAID, WAS ASKING HIGH PRICES FOR EQUIPMENT WHICH WOULD BE INSTALLED IN THE PLANT, BUT WAS REFUSING TO PAY HIGH PRICES FOR THE ELECTRICITY WHICH THE

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PLANT WOULD PRODUCE. FURTHER, HE ADDED, THEY REFUSE TO PAY FOR TRANSMISSION LOSS, WHICH WOULD BE IMMENSE OVER SUCH LONG DISTANCES.

6. BONDARENKO CONTINUED THAT THE KALININGRAD PROJECT HAD NOW BEEN UNDER STUDY FOR THREE YEARS. THE PROBLEMS, HE SAID, TO A LARGE DEGREE REVOLVE AROUND THE DISTANCES INVOLVED IN TRANSMISSION, AND OF COURSE THE FACT THAT THE LINES WOULD BE BUILT "THROUGH POLAND AND THE GDR TO THE FRG, WITH A CONNECTING LINE TO WEST BERLIN".

HE SAID THAT THE PROJECT WOULD PROBABLY BE DISCUSSED WITH FRIDERICHs WHILE HE WAS HERE, BUT ADDED, AS IF IT WERE DECISIVE, THAT "THE EXPERTS FORM THE TWO SIDES DO NOT AGREE."

7. BONDARENKO CONCLUDED THE CONVERSATION WITH THE ASSERTION THAT "WITHOUT DOUBT" THE USSR AND THE U.S. WOULD ALSO BE MOVING TOWARD COOPERATION ON ENERGY QUESTIONS. WITHOUT AN INTERNATIONAL DIVISION OF LABOR ON THIS ISSUE, HE SAID, THERE IS NO CHANCE OF FINDING THE SOLUTION IN EVERYONE'S INTERESTS.

8. COMMENT. BONDARENKO'S COMMENTS ON THE KALININGRAD PROJECT ARE PARTICULARLY INTERESTING SINCE, IN ADDITION TO THE FACT THAT THE DEMISE OF THIS PROJECT HAD ALREADY BEEN ANNOUNCED AT THE TIME HE WAS TALKING WITH ME, HE DESCRIBED THE REASONS FOR FRG-SOVIET DISAGREEMENT AS "PRIMARILY" FOR COMMERCIAL REASONS. IN OFFICIAL STATEMENTS TO THE PRESS THE BREAKDOWN OF NEGOTIATIONS ON THIS PROJECT WAS SAID TO BE ENTIRELY FOR COMMERCIAL REASONS. THE DIFFERENCE IN STATEMENTS APPEARS TO LEND SOME CONFIRMATION TO THE BELIEF OF FRG EMBASSY OFFICERS IN MOSCOW THAT GDR OBJECTIONS PROBABLY PLAYED SOME ROLE IN SOVIET DECISION TO ABANDON PLANS FOR KALININGRAD DESPITE THE STRONG EMPHASIS PLACED ON ATOMIC ELECTRIC POWER DEVELOPMENT IN THE CURRENT FIVE-YEAR PLAN.
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